

Republic of the Philippines  
**ENERGY REGULATORY COMMISSION**  
Pacific Center Building, San Miguel Avenue  
Ortigas Center, Pasig City

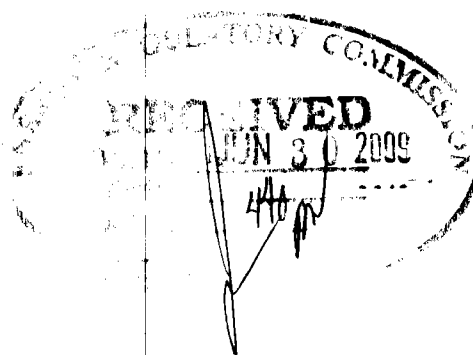
PETITION FOR THE RECOVERY OF  
NATIONAL POWER  
CORPORATION'S STRANDED  
CONTRACT COSTS PORTION OF  
THE UNIVERSAL CHARGE FOR  
THE LUZON GRID,

ERC CASE NO. 2009 - 046 RC

POWER SECTOR ASSETS AND  
LIABILITIES MANAGEMENT  
CORPORATION (PSALM)

*Petitioner.*

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**PETITION**

Petitioner **POWER SECTOR ASSETS AND LIABILITIES  
MANAGEMENT CORPORATION (PSALM)**, through counsel, respectfully  
states:

1. This is a Petition for the Recovery of National Power Corporation's Stranded Contract Costs Portion of the Universal Charge for the Luzon Grid pursuant to R. A. No. 9136 or the "Electric Power Industry Reform Act of 2001" (EPIRA), its Implementing Rules and Regulations (EPIRA-IRR) and the Rules for Recovery of NPC Stranded Contract Costs and Stranded Debts Portion of the Universal Charge (**Rules for Recovery**) as adopted by ERC Resolution No. 04-2007 dated 6 February 2007.

09-0967

2. Petitioner PSALM is a government-owned and controlled corporation created by virtue of Republic Act No. 9136 or the "Electric Power Industry Reform Act of 2001" (EPIRA), with principal office address at 7/F Bankmer Building, 6756 Ayala Avenue, Makati City.

3. The principal mandate of PSALM is to manage the orderly sale, disposition, and privatization of NPC generation assets, real estate and other disposable assets, and IPP contracts with the objective of liquidating all NPC financial obligations and stranded contract costs in an optimal manner (Sec. 50, EPIRA). To attain its objectives, PSALM shall, among others, [i] calculate the amount of the stranded debts and stranded contract costs of NPC which shall form the basis for ERC in the determination of the universal charge and [ii] liquidate the NPC stranded contract costs, utilizing the proceeds from sales and other property contributed to it, including the proceeds from the universal charge (Sec. 51, EPIRA).

4. Stranded Contract Costs (**SCC**) refers to the excess of the contracted cost of electricity under eligible IPP contracts of NPC over the actual selling price of the contracted energy output of such contracts in the market. To be eligible for recovery under the Universal Charge (**UC**), such contracts must have been approved by the then Energy Regulatory Board (**ERB**) as of 31 December 2000 (Sec. 44[uu], EPIRA).

5. The Rules for Recovery was issued in 2007, however, petitioner informed the Honorable Commission of its non-filing for the UC-SCC for CY 2007, considering that the calculations showed that the actual operations of the eligible independent power producers (**IPPs**) for the year 2007 registered a

positive net generation margin. This means that no SCC had been recorded by NPC in operating the eligible IPPs in the said year.

6. For purposes of the UC-SCC calculation, the following were considered:

**A. Eligible IPPs**

Pursuant to the EPIRA, the following IPPs which were approved by the then Energy Regulatory Board (ERB) or the Energy Regulatory Commission prior to December 31, 2000, are eligible for recovery under the UC-SCC:

1. Sual Coal-Fired;
2. Pagbilao Coal-Fired;
3. Hedcor; Ampohaw and NMHC;
4. Leyte-Luzon;
5. Limay Combined Cycle;
6. Bauang Diesel; and
7. Subic Enron.

The above IPPs are traded in the market by the Power Sector Assets and Liabilities Management Corp. (PSALM) trading teams.

**B. Traded Energy**

The monthly billings of PSALM to the Philippine Electricity Market Corporation (PEMC) identify the total energy traded every hour, which covers the volume of energy traded in the spot market, and those assigned to bilateral contracts.

1. **Metered Quantity** is the total volume of energy traded in the market based on the monthly billings of PEMC to PSALM;
2. **Spot Market Volume** is the volume of energy traded in the spot market that is derived by deducting the Bilateral Contract Quantities (BCQ) declared by the PSALM Traders from the total Metered Quantities (MQ) in the Wholesale Electricity Spot Market (WESM);
3. **Bilateral Contract Quantities** are the volume of energy assigned to the PSALM traders to supply NPC's contractual obligations under the following:
  - i. **TSC/CSEE** is the volume of energy contracted by the Distribution Utilities and Large Industries with the NPC that are covered by the Transition Supply Contracts or Contract for Supply of Electric Energy (TSC/CSEE).

- ii. **ODPS** is the volume of energy contracted by an end-user under the One-Day-Power-Sale Program of NPC.

**C. Utility Revenue**

1. Spot Market revenues for each eligible IPP are derived from the monthly billings of PSALM to PEMC.
2. The total revenues billed to TSC/CSEE customers for the Luzon Grid was pro-rated to each plant by multiplying the hourly TSC quantities declared by the Traders in the market with the ERC-approved Time-of-Use (ToU) rates under ERC Case No. 2004-178.
3. The total ODPS revenues billed to industries was pro-rated to each plant by multiplying the hourly ODPS quantities declared in the market by the ODPS rates.
4. Ancillary service (A/S) revenues include Load Following and Frequency Regulation, Spinning Reserve, and Back-up Reserve.
5. For UC-SCC calculation, the Mandatory Rate Reduction of 30 ctvs. was not deducted from the total revenues of the NPC.
6. Refund of the ERC-approved GRAM and ICERA for 2008 was deducted from the Utility Revenue.

**D. Variable Costs** consist of the contractual obligations of NPC for the payment of fuel costs, purchased power cost composed of energy fees and wheeling fees.

**E. Generation Fixed Costs** consist of the following:

1. Contractual obligations of NPC for the payment of Capital Recovery/ Capacity Fees, Infrastructure Fees, and the Fixed O & M portion of the Purchased Power Costs. Foreign denominated obligations were converted into peso using the actual exchange rate at the time of payment based on the Payment Instruction vouchers.
2. NPC's other operating expenses consists of Personnel Cost, Maintenance & Other Operating expenses, Insurance, taxes and duties, among others.

**F. Calculated UC-SCC for CY 2008**

Based on the above assumptions, the calculated UC-SCC for the CY 2008 is as follows:

Particulars	UC-SCC OF ELIGIBLE IPPs
Energy Generation , Gwh	9,038
Energy Sales, Gwh	8,449
Net Utility Revenue	30,518
Less: Variable Costs	21,480
Fixed Costs	11,146
Payment of Capacity Fees	21,152
Net Operating Income/(Loss)	(23,260)
Add back: Depreciation	1,004
Net Generation Margin/(Loss)	(22,256)

7. Since it is only in the Luzon Grid where the Wholesale Electricity Spot Market (**WESM**) is in place, it is the only grid allowed to recover SCC from the UC. Out of fifteen (15) IPP contracts in Luzon, seven (7) are eligible for recovery under the SCC. As indicated above, the IPPs eligible for recovery under the SCC posted a loss of PhP22,256.3 million; the details of SCC calculations are shown in the attached Annex "A".

8. Based on a 1-year, 3-year and 5-year recovery period, the stranded contract costs incurred in operating the seven (7) eligible IPPs will translate to the following UC rate for the Luzon grid:

Proposed Recovery Period	Projected Sales, Gwh	Amount, Million Pesos	P/kWh
1-Yr. Recovery	44,298	22,256.3	0.5024
3-Yr. Recovery	138,750	22,256.3	0.1604
5-Yr. Recovery	241,903	22,256.3	0.0920

9. Petitioner proposes to spread the UC-SCC over a period of five years in order to stabilize and mitigate the impact on all electricity end-users.

10. Pursuant to the Rules of Recovery, true-up adjustments shall be done on an annual basis. The Rules further provide that “[i]n the event that the total amount collected for the NPC Stranded Contract Cost recovery fall short of the approved appropriated share of PSALM in the UC, the shortfall shall be programmed for the ensuing year’s respective petitions”. (Sec. 4, Article VII, Rules for Recovery)

11. Pursuant to Section 4(e) of Rule 3 of the EPIRA-IRR and ERC Resolution No. 38- 2006, a copy of the instant Petition (including Annexes) was furnished the Sangguniang Panlungsod of Makati City (Annex “B”). The Petition was also published in a newspaper of general circulation (Annex “C”).

14. Also attached are the following documents in support of the instant Petition.

### LIST OF ATTACHMENTS

Document	Annex
Summary of PSALM Monthly Billings to PEMC	D and Series
Summary of Capacity Fees of Eligible IPPs	E and Series
List of Eligible IPPs	F

### PRAYER

**WHEREFORE**, premises considered, petitioner respectfully prays that, after due notice and hearing, the Honorable Commission APPROVE:

1. The proposed UC-SCC charge for the Luzon grid for CY 2008 under the proposed recovery period, as shown below:

Proposed Recovery Period	Projected Sales, Gwh	Amount, Million Pesos	P/kWh
5-Yr. Recovery	241,903	22,256.3	0.0920

2. The adoption of a true-up mechanism on an annual basis based on the approved Rules.

Petitioner prays for other reliefs just and equitable under the circumstances.

Makati City, June 26, 2009.

- signatories on following pages -

  
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Petition for Recovery-UC503  
PSALM. Petitioner

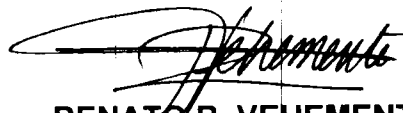
  
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Roll of Attorney No. 49458



**RENATO R. VEHEMENTE**

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IBP No. 787688

Roll of Attorney No. 56568

**POWER SECTOR ASSETS AND LIABILITIES  
MANAGEMENT CORPORATION**

7th Floor, Bankmer Building  
6756 Ayala Avenue, Makati City

(Republic of the Philippines)  
(Makati City ) s.s.

**VERIFICATION AND CERTIFICATION**

I, **JOSE C. IBAZETA**, of legal age, married, with office address at the Power Sector Assets and Liabilities Management Corporation (**PSALM**), 7<sup>th</sup> Floor, Bankmer Building, 6756 Ayala Avenue, Makati City, after having been duly sworn to in accordance with law, do hereby depose and state for myself and for PSALM, that:


- (1) I am the President and Chief Executive Officer of the Power Sector Assets and Liabilities Management Corporation (**PSALM**) with authority to commence, initiate and file the foregoing Petition pursuant to PSALM Board Resolution No. 1009-0626-001, a copy of which is hereto attached as Annex "G";
- (2) I have read the Petition and the allegations therein are true and correct based on my personal knowledge or the authentic records available to PSALM;
- (3) I or PSALM have not commenced any other action or proceeding involving the same issues in the Supreme Court, the Court of Appeals or any court, tribunal, or quasi-judicial agency and, to the best of my knowledge, no such other action or claim is pending therein; and
- (4) If I or PSALM should hereinafter learn that the same or a similar action or claim has been filed or is pending in the Supreme Court, the Court of Appeals or any court, tribunal, or quasi-judicial agency, I shall report the said fact within five (5) days from discovery thereof to the Honorable Commission.

JUN 29 2009  
June 29, 2009, Makati City, Philippines.

  
**JOSE C. IBAZETA**  
Affiant

JUN 29 2009  
SUBSCRIBED and SWORN TO before me this 29 day of June 2009, with affiant **JOSE C. IBAZETA** presenting to me his Passport No. ZZ149721 issued on August 10, 2005 at DFA, Manila, Philippines, known to me and to me known to be the same person who executed the foregoing Verification and Certification.

Doc. No. 203,  
Page No. 47,  
Book No. VI,  
Series of 2009.

  
Notary Public  
**CECILIO B. GELLADA**,  
Notary Public Appt No. M-186  
Until December 31, 2010  
Roll of Attorney No. 30354  
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